How To Trade The News

Introduction

"All media exists to invest our lives with artificial perceptions and arbitrary values"

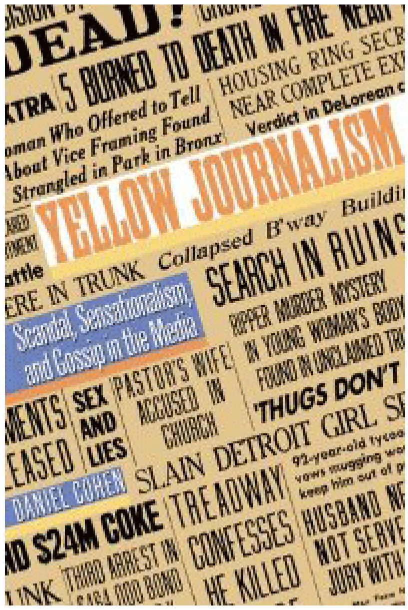
Marshall McLuhan, (1911-1998)

by Andrew Hall

Giving credence to the never ending gush of *'Breaking News'* stories on mainstream financial news television channels and in the even more belated stories that appear in financial newspapers, is one of the core reasons why so many traders fail. To put it frank, much of what is reported in the mainstream news is misinformed 'yellow journalism' not fit for human consumption, and is definitely not of assistance to the serious trader wishing to make profitable trading decisions based on intrinsic market mechanics. The sooner you can accept this point, the quicker you will make your transition to approaching your trading in a whole-brained manner; consistently focusing on the pokerfaced realities of Order Flow and ignoring what misinformed manipulated reporters are telling you. News is often dressed up in an emotional way. This is the very last thing you want when trading.

Yellow Journalism

The problem is that a journalist cannot tell you the whole truth and never will. The first reason for this is that most news reporters are out of the loop and hopelessly have no factual inkling as to what is really going on in the Smart Money syndicates. The second reason is that most journalism is 'yellow journalism' rather than investigative journalism. With the advent of social networking, these traditional news outlets are competing for exclusivity, not only against their established peers in the traditional media industry, but also against the fringe, agile and tech savvy 'citizen journalists' who can use the likes of Google+, Twitter and YouTube to instantly break news to the online masses. Thus, anxious journalists are frequently fed with incorrect PR (often deliberately) which they unwittingly report verbatim as factual live



'BREAKING NEWS', hurriedly as soon as it arrives over the wire; without the due diligence necessary to verify authenticity.

Enter The 'Financial Expert'

As already stated, the financial news tends to report rumours, speculations and projections as facts. How does the media do this? Typically by quoting a guest "financial expert". The media can always find some 'expert' who will say something hopelessly hopeless about anything. A recent occurrence of a self-styled "financial expert" appearing in the news is the case of Mr Alessio Rastani who appeared on the UK state-owned British Broadcasting Corporation (BBC) Business News on 26th September, 2011. In what now purports to have been an overwhelmingly successful PR stunt in which Mr Rastani made a number of contentious, albeit true, headline grabbing statements live on the programme with the aghast BBC Presenter, Martine Croxall, turning in astonishment to her co-host, fostering further hype to the controversial interview.

Mr Rastani supposedly skilfully orchestrated an appearance on BBC news on a day of "turmoil in the stockmarket", with major indices violently ricocheting throughout the day. His statements included:

- *"The governments don't rule the world – Goldman Sachs rules the world."*
- *"I go to bed every night and I dream of another recession..."*

Additionally, in terms of market direction he added:

- *"The market is toast...the stock market is finished..."*
- *"..in less than 12 months my prediction is that savings of millions is going to vanish and this is just the beginning"*

Enter the Twitterati Citizen Journalist

It was only after the tech savvy 'citizen journalists' of the social media Twitter community turned on Mr Alessio Rastani that the traditional media began to look into the qualifications of the BBC's 'Financial Expert'. Soon after, the national press reported that Mr Rastani had promptly denied being a financial expert and reportedly professed *"I am just an attention seeker...a talker...trading is a hobby.."*

Nevertheless, Mr Rastani is not to blame in my opinion. He was presented with an opportunity, to reach out to an audience of the masses with his genuine thoughts and concerns, and he took it and I give full him credit for that - more power to him. Furthermore, the reporter or news presenter is usually not to blame since they are oblivious to fact that they are, at times, being tactfully manipulated like puppets; ready to pass on the fodder that is designed to hoodwink the unwary lambs (uninformed traders, see laggards). It is these lambs that only have themselves to blame for not seeing the mainstream 'news' for the fodder that is and as W.C. Fields famously said, *"It is morally wrong for a sucker to keep his money"*.

Nevertheless online news website comments, blogs, twitter streams, facebook walls were ablaze with pleas from the public, petitioning the BBC's 'Financial Expert' to save them from the oncoming financial apocalypse that he had described on the news. A number of traders had commented how they had begun closing their Long positions and opening Shorts as a result of what they had heard on the BBC News programme that day. So what happened in the financial markets subsequently after those infamous statements of doom and gloom?

Figure 1 below shows the emini S&P 500 ES Futures chart (the blue horizontal line represents the price level at which the comments were made) the week after the comments were made. The upward move on the chart clearly illustrates that any short-sighted laggard trader that blindly attempted to take immediate advantage of the news hype (e.g. by closing a long position or opening a short position during the subsequent week following the week of the remarks) would have been out of pocket soon after (with the exception of informed day traders) and rightly so.

Traders could have gained valuable information if they had entered the market prepared with the following information:

1. Direction of the higher timeframe trend.
2. Identified KRAs.
3. Examined Order Flow and/or Order Flow Divergence for trade execution confirmation.
4. Examined the market expectations for scheduled financial data announcement (e.g. Unemployment Claims etc)

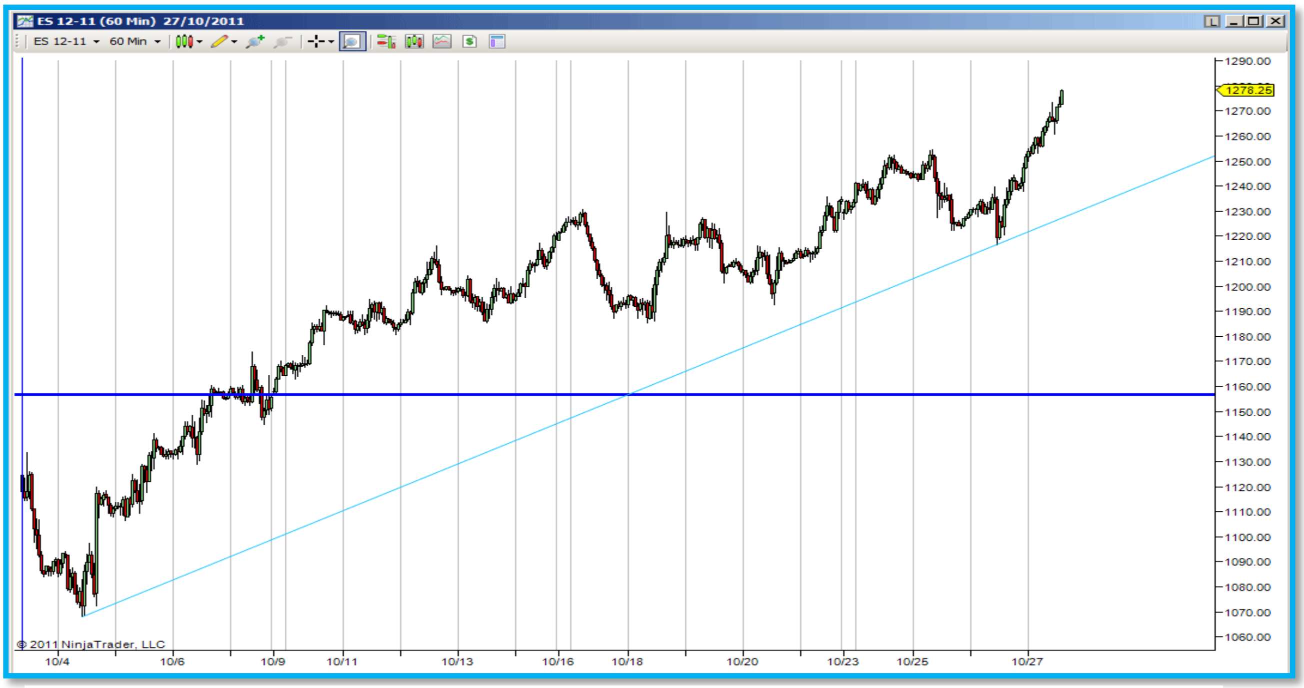


Figure 1

Figure 2 Chart showing upward move after Alessio Rastani's TV appearance

Here is another example of how the news can inadvertently get it wrong:

Mr Bernanke, the Chairman of the Federal Reserve Board of Governors, emerges on live television and presents what seems to be a bearish statement; the market falls sharply in response to this news. Financial news presenters appear grimaced on television, reporting the 'facts' as to why the market has 'crashed' today:

"The stock market crashed across the board today, on negative statements made by the chairman of the Federal Reserve."

To add to the impact and drama of the announcement, any other negative information is contorted and construed to support the narrative.

Inside The Loop

So why is this news announcement probably leading you off course and impairing your trading? For the reason that had the news team been inside the loop, this is how the news announcement should have been reported:

"The market has fallen alarmingly today. Bearish statements made by Mr Bernanke, the Chairman of the Federal Reserve, caused the Smart Money to auction the market lower rejecting previously established value, in a manoeuvre to discount the negative news. This had an effect on weak holders and uninformed traders, causing them to panic sell their holdings to commercial traders, who have been waiting for this opportunity to buy at lower prices below value.

Professional traders, who all usually belong to an inside track syndicate of one form or another, were informed regarding the forthcoming press release well in advance of the announcement, and were ready to absorb a huge amount of inventory. They stand to profit handsomely in the days ahead, as a result of this successful and expertly timed operation."

Do you have to avoid listening to the news altogether? No, of course you can listen to the news, but always ask yourself, *"Have professional traders used this news to auction the market either up or down, as a profiteering manoeuvre?"* As a trader, you would be well advised to view the news and news announcements from a new enlightened perspective. When you see or hear a story, assuming the story appears to be factual and you believe it is of relevance, you will be wise to reflect upon the following three questions:

1. What is the impact of this story in the overall context of my PMA?
2. Can I use this news story to better my own trading position?
3. How can this story be used in a manipulative way by other traders working against my interests?

News Television: the drug of a nation

A significant part of the problem is that you have been indoctrinated from a very early age as to what are the 'trusted' sources of news to the extent that you are now very receptive to those sources regardless, almost like a mind bending narcotic. When you first enter the trading arena

and still a little 'green', you will naturally think it will be helpful to you in your trading activities if you keep abreast of the financial news; by having one of the flagship financial news channels streaming live breaking news out of miniature browser window on your multi screen setup, enthusiastic to assimilate information, and be well informed of current affairs. This is somewhat TOLERABLE only if you remember to read between the lines. If you cannot remember to do so and can admit to yourself that you lack the mental discipline, then turn it off, although I say this knowing that you are likely to find it extremely difficult to do so.

Preparation Is Half The Battle

Generally, many Commercial market participants have balanced their positions prior to a scheduled news announcement. Thus, the day or two just prior to the news is often left in the hands of the Locals and Retail traders and other shorter-term traders. The resulting low volume setting presents a precarious trading environment as rumours and predictions can cause price to rotate wildly. Nonetheless, you may still have the desire to gain an edge through exploiting the 'news'. This is where your troubles start as you probably assume that the market will go up on good news and down on bad news. To become a proficient trader, you have to start thinking and acting like Smart Money. You have to undergo a paradigm shift: moving away from trading alongside the herd of loosing traders, to adapting the persona of a whole-brained

predator. Adhering to this new paradigm, a trader would be buying Long on great opportunities, caused by 'negative news announcements' when the herd are panic selling; selling Short on great opportunities, caused by 'positive news announcements' when the herd are panic buying. Again, you will find this extremely difficult to do.

As a guide, you need to:

- Buy on bad news below an area of value which has produced a 'shake-out' i.e. market auctioning lower after you have already seen a substantial sell off and
- Sell on good news above a previously established value area after you have already seen a substantial bull market.

Habitually, when extremely high volume appears in an Index or stock, some sort of narrative appears in the media explaining it away. Do not listen, or allow any news to influence your trading judgement. These news stories are mostly half-truths and rumours.

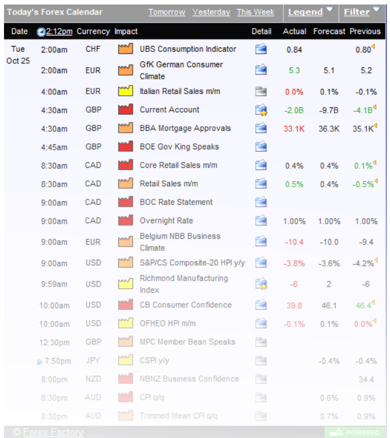
Here are some typical rumours that are well worth ignoring:

"Larger than usual volume has been traded in company X shares today, however, investors are advised to ignore this, as it has distorted the true market volume."
Claptrap. Volume is Volume and Trading is Trading!

"This particular trading activity is mainly by the market-makers trading amongst themselves and not real trades."
More claptrap - ditto.

"The market soured higher today, not because there was any good news, but because there was no bad news."
Yes, this preposterous proclamation was purported by the glamorous folk presenting the financial news that streams live from the floors of the financial bourses. Always remember, professionals are not going to miss any profiteering opportunities. News is often the preferred mechanism to shake weak traders out of the market, which also has the schadenfreude upshot of triggering stop loss orders.

Hot Off The Press
The release of a major news announcement (such as ISM Manufacturing PMI, Non-Farm Employment Change, or Philly Fed Manufacturing Index) often creates a violent "knee-jerk" reaction by the market's participants. Analyse any higher timeframe chart in relation to a news announcement and you will observe



Today's Forex Calendar — Tomorrow | Yesterday | This Week | Legend | Filter

Date	2:12pm	Currency	Impact		Detail	Actual	Forecast	Previous
Tue Oct 25	2:00am	CHF		UBS Consumption Indicator		0.84		0.80
	2:00am	EUR		GfK German Consumer Climate		5.3	5.1	5.2
	4:00am	EUR		Italian Retail Sales m/m		0.0%	0.1%	-0.1%
	4:30am	GBP		Current Account		-2.0B	-9.7B	-4.1B
	4:30am	GBP		BBA Mortgage Approvals		33.1K	36.3K	35.1K
	4:45am	GBP		BOE Gov King Speaks				
	8:30am	CAD		Core Retail Sales m/m		0.4%	0.4%	0.1%
	8:30am	CAD		Retail Sales m/m		0.5%	0.4%	-0.5%
	9:00am	CAD		BOC Rate Statement				
	9:00am	CAD		Overnight Rate		1.00%	1.00%	1.00%
	9:00am	EUR		Belgium NBB Business Climate		-10.4	-10.0	-9.4
	9:00am	USD		S&P/CS Composite-20 HPI y/y		-3.8%	-3.6%	-4.2%
	9:59am	USD		Richmond Manufacturing Index		-6	2	-6
	10:00am	USD		CB Consumer Confidence		39.8	46.1	46.4
	10:00am	USD		OFHEO HPI m/m		-0.1%	0.1%	0.0%
	12:30pm	GBP		MPC Member Bean Speaks				
	7:50pm	JPY		CSPI y/y			-0.4%	-0.4%
	8:00pm	NZD		NBNZ Business Confidence				34.4
	8:30pm	AUD		CPI q/q			0.6%	0.9%
	8:30pm	AUD		Trimmed Mean CPI q/q			0.7%	0.9%

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that the market may auction upwards on good news or downwards on bad news only for a brief moment, however, the higher time frame trend of the market is rarely reversed by 'news'. So trying to anticipate the news item and how it will affect market sentiment is a highly perilous gamble. Once the news information is out, price moves so violently and with such speed that it is nearly impossible to make a rational trading decision or locate your trade where you want it. Generally, good news is seen at the tops of markets (to suck in buyers during the Distribution Stage) and bad news is seen at the bottoms (to shake out weak holders during the Accumulation Stage).

Survival Of The [Mentally] Fittest
Always act on what you know to be evidence based on undiluted common sense; although unfortunately, the problem with 'common sense' is that it is not that common. Never become slothful and rely solely on the explanation given by others. It is relatively impossible for the average trader to act like an android, trading on facts alone, since to some extent most of us are instinctively emotional beings when faced with making a decision in threatening, or other stressful circumstances; such as at the hard right edge of the chart where price activity is unfolding and you can hear your heart thumping in your head as you eyeball every tick in price movement. We are like this to ensure our survival. However, that life-saving *fight or flight* modus operandi, will not allow you to survive let alone succeed in the psychologically demanding realm of trading.

Guidelines On How Trade The News
Table 1 displays the basic news/market sentiment relationships. Instead of being psychologically and financially ricocheted by the market during a major news announcement, you should only use the news to a limited advantage by following these guidelines:

	LT Direction	News	DT Direction	Sentiment Indication
1	UP	BEARISH	UP	VERY BULLISH
2	UP	BEARISH	DOWN	NEUTRAL; EXPECTED
3	UP	BULLISH	UP	BULLISH
4	UP	BULLISH	DOWN	VERY BEARISH
5	DOWN	BEARISH	UP	VERY BULLISH
6	DOWN	BEARISH	DOWN	BEARISH
7	DOWN	BULLISH	UP	NEUTRAL; EXPECTED
8	DOWN	BULLISH	DOWN	VERY BEARISH

*__LT__ = Longer Timeframe; __DT__ = Day Timeframe

1. Balance your day trade holdings so that you hold no positions going into the scheduled announcement (except for long-term trade holdings if any)
2. Can I use this news story to better my own trading position?
3. Make note of market expectations, recent directional conviction (or lack thereof) and prominent reference points (KRAs) for optimum trade location.
4. Observe activity after the actual number is released to determine underlying market sentiment (use above reference chart, if necessary).
5. Keep an eye on ensuing price activity near recent key reference/pivot levels for acceptance or rejection.
6. Identify a fulcrum.

7. Use Order Flow and/or Order Flow Divergence for trade execution confirmation.
8. If a set up presents the odds in your favour, enter you trade. Position stop loss orders beyond structural KRAs. Exit if conditions arise that contradict market sentiment.

About the Author

Andrew Hall is a Proprietary Trader and Head Trader at iTradePod. Andrew has over 10 years trading and investing experience. He continues to mentor a number of traders, achieving trader excellence in Market Profile® Trading, Order Flow Principles, Value Trading and Auction Market Theory. As an experienced and highly qualified IT Consultant, Algo / Quant Software Developer and Educator he has been awarded various statuses by professional bodies including Chartered Engineer, Fellow Chartered IT Professional and Fellow of the College of Teachers. Follow Andrew on Twitter via @miniDowTrader or email him at Andrew@iTradePod.com.